

SEAF Quarterly Report for the Period Ended December 31st, 2004

I. Introduction

This marks the end of the calendar year as well as two and a half year's of SEAF/CASEF activities in Central Asia. The portfolio of investments continues to expand and several new prospects have been identified, that if realized, would greatly alter CASEF's current scope of activities.

Disbursements continued and currently stand at \$2,530,290 out of total commitments of \$5,048,000. A summary of approved commitments and disbursements is attached to this report. While the ICD Facility will be used to co-finance two of the approved investees, nothing has been drawn-down to-date.

Following the downsizing that took place last quarter, SEAF's regional team has adapted accordingly and is fully capable of dealing with the current workload, although it does mean that SEAF's regional staff will be entirely engaged in working with the existing PC's and will have no time for other activities.

During the CASEF board meeting in Bishkek on November 9th, it became very apparent that further efforts must be made to increase CASEF's capital base from its current level of \$7.2 million. The most promising of these is the possible investment by the Kazakh National Innovation Fund (KNIF), with whom discussions are currently on going.

Conditions in the region continue to reflect the disparate conditions between the progressive happenings in Kazakhstan, and to a lesser extent in Tajikistan, and the sluggish somewhat regressive developments in Uzbekistan.

With their abundant reserves of oil and gas and strategic locations, the Central Asian republics are being courted by a wide variety of international players ranging from the traditional superpowers (USA, Russia and China), to new friends from the Gulf and Eastern Europe.

The recent events in Ukraine have served as a second wake-up call to the regional leaders, with one expressing distain at the involvement of western

influences, and another taking measures to restrict the activities of opposition parties. As a whole, the region has shown limited interest in democratic reform and there is considerable speculation as to whether the promised presidential succession in Kyrgyzia will actually happen later this year.

II. Activities to-date

SEAF's activities during the past quarter have largely been focused on: (i) working with the PC's; (ii) preparing for the CASEF board of directors meeting that took place in Bishkek on November 9th; (iii) conducting due diligence on the new investment proposals that are submitted to the Investment Review Committee (IRC) for approval; and (iv) seeking alternative and/or new sources of funding for regional activities.

In Kazakhstan SEAF has been engaged as follows:

- Working closely with the **Siaband Fuel Storage Company** where CASEF has an approved investment of \$810,000. Priorities include monitoring, implementation of the expansion program, and disbursement of the ICD financing that will represent the first use of the Facility.
- Continuing negotiations regarding CASEF's approved investment of \$800,000 in **Kazakhstan Service Supply Company**, where due to a series of factors, disbursement is now on hold.
- Preparation and due diligence in connection with the proposed investment in **Taib Leasing**, a new joint venture to be established between Taib Bank Kazakhstan, the ICD, and CASEF.
- On going discussions with the **Kazakh National Innovation Fund (KNIF)** regarding a proposed investment of up to \$2.2 million in CASEF.
- The Almaty office has also been engaged in the implementation and monitoring of CASEF's investment in **El Gas**, the Bishkek-based LPG distribution company. Key issues are the selection/appointment of a general director, and sourcing of LPG.

In Uzbekistan SEAF has largely been involved in the following:

- Close monitoring and supervision of CASEF's investment in **Semurg Estates**, where a follow-on investment of \$400,000 was recently approved. This brings CASEF's total exposure to \$900,000 in this hotel ownership company where the first hotel is due to open in Bukhara on April 15th, 2005.
- Continuing close involvement in the implementation of **Aqua Tudakul**, the fish farming joint venture in Navoi.
- Supervision and monitoring of **Business Leasing** as the new joint venture continues to expand its activities.
- On going discussions with the various participants in the **Tajik Cotton Gin** project, where several new developments have contributed to renewed momentum.
- Detailed due diligence in connection with a proposed investment in **Business Bank**.

As already mentioned, the CASEF board of directors met in Bishkek in mid-November with the added participation of Robert Simmons of USAID, Talgat Kukenov of the ICD; Catherine Cudre-Mauroux of the Swiss Cooperation Office, and Geoff Burns of CASEF's IRC.

Following the board meeting, SEAF hosted a ceremony for the participants and local/foreign officials at which the **El Gas** joint venture was officially announced. From Bishkek several of the participants traveled to Uzbekistan where they visited the **Aqua Tudakul** operations in Navoi and the **Semurg Estates** hotel property in Bukhara.

On November 15th, 2004 the US Ambassador to Uzbekistan also traveled to Navoi where he visited the fish farming activities at the lake and the processing plant in Navoi City. It was widely reported in the local press and on Uzbek national television.

While it had been expected that SEAF would be making another presentation to USAID/CAR prior to yearend, the date has been changed and is now scheduled for February 7th.

III. Staffing

There have been no changes or additions to SEAF's regional team since the last report.

IV. Country Reports

As mentioned earlier the region is the subject of increased attention from foreign investors interested in oil and gas, as well as from the United States Government in connection with the "*War on Terrorism*" and the operations in nearby Afghanistan. Regional programs would have a high probability of success if the local government's were to be more supportive of cross-border trade and investment. As it is, private direct investment (PDI) from Kazakhstan is flowing into Kyrgyzia but is resisted in Uzbekistan.

With **Kazakhstan** continuing to show high growth and large inflows of PDI, the regional disparities are more and more apparent. Qualified professionals and skilled craftsman now look to move to Kazakhstan where jobs are plentiful and wages are significantly higher. SEAF looks to expand its activities but is restricted by budgetary constraints. The proposed initiative in the west has been put on hold pending resolution of the approved CASEF investment in **KSS** and the hoped for investment by the **KNIF** in CASEF. Once the latter is finalized, CASEF's available capital will increase by \$4.2 million and SEAF will be in a position to move forward with several potential investments that have already been identified. In the meantime, CASEF's portfolio consists solely of the **Siaband Fuel Storage** joint venture, where attention is being given to growing the business through improved marketing and service facilities.

In neighboring **Kyrgyzstan**, most of SEAF's attention is directed towards the **El Gas** joint venture and the need to find a new general manager as well as reliable and affordable sources of LPG. Supplies are available in Kazakhstan but prices have increased to where it's no longer feasible to buy given the final cost to Kyrgyz consumers. Efforts are underway to source LPG from Uzbekistan but the same price restraints may apply. While SEAF is not actively soliciting new investment proposals, all leads and/or

suggestions are acted upon and looked into. Unfortunately, nothing has been noted that might be of interest as a potential CASEF investment.

Tajikistan continues to enjoy foreign support and PDI has increased. Without an office in Dushanbe it is difficult to pursue every prospect but SEAF is in regular contact with such investors as the Aga Khan Fund for Economic Development (AKFED) and others who support the private sector. To-date SEAF's activities are mainly focused on the proposed **EBUS Cotton Gin** joint venture where CASEF has approved a commitment of \$710,000. Given recent developments that were widely discussed at the board meeting, it was agreed that: (i) SEAF would conduct further due diligence on the proposed new shareholders/involved parties; and (ii) that the project be resubmitted to the IRC before going forward.

While the situation in **Uzbekistan** has shown no sign of improvement, CASEF's portfolio holdings are progressing and showing positive signs of development. The **Aqua Tudakul** joint venture is showing positive cash flow as fish harvests exceed budget and prices are increasing. CASEF's local partner has also benefited from: (i) the coverage/support provided by CASEF's shareholders; and (ii) the technical assistance from the Israeli expert SEAF helped arrange. Given the combination of positive elements, the local partner has approached SEAF to express his intent to make use of his right to *call* CASEF's shares starting at the end of 2005. Discussions are now underway as to the price of the shares given CASEF's right to have an assured rate of return. In the case of **Business Leasing**, initial volume exceeded budget but has recently slowed down due to a combination of yearend holidays and the slowness/uncertainties in the Uzbek economy. Negotiations with Frontiers regarding a possible loan of \$200,000 continue, as the company will soon need added funding to keep pace with potential lease opportunities. Work in Bukhara on the hotel owned by **Semurg Estates** is progressing well although added funds were required and CASEF has recently approved a follow-on loan of \$400,000 to complete the hotel in time for the tourist season. Starting in April 2005, the hotel is already half booked.

V. Future Activities

SEAF's priorities for the New Year are:

- Continued close supervision and monitoring of the PC's.

- Utilization of the ICD Facility
- Closure with the KNIF regarding the proposed investment in CASEF.
- Resolution with USAID/CAR regarding potential TA in the near term.
- Presentation of new investment proposals to the IRC and resubmission of the Tajik Cotton Gin project.
- Resolution on funding and budgetary issues for 2005.

SEAF

Tashkent, Uzbekistan

January 14th, 2005

SEAF Central Asia Small Enterprise Fund (CASEF)

SUMMARY of CURRENT PROJECTS as of January 24th, 2005

Total Current Projects Under Advanced Consideration: 20

Project	Starting Date	Industry	Status	Potential CASEF Investment	Probable Total Investment	Comments
Stages 2/3/4						
<u>Uzbekistan</u>						
Asian Stone Holdings	Feb 04	Building Materials	Stage 3	\$1,000,000	\$1,000,000	This started as the proposed expansion of an existing granite/marble company where IFC is a creditor. Due to several factors it has changed to a regional project focused on quarry extraction and marketing of diversified stone from quarries in Uzbekistan, Kyrgyzstan and Tajikistan. Use of the ICD Facility is a precondition of SEAF's interest. Due diligence and common agreement between the parties is underway.
Merchandising Company	Nov-03	Merchandising	Stage 3	\$500,000	\$1,500,000	Proposal to establish a new joint venture that would own, manage and lease apparel-manufacturing facilities. Existing garment factory project would be incorporated in this Uzbek Merchandizing Company, as would investments in other textile related activities including silk fabric manufacture and marketing. Due diligence is underway.
Tannery	April 04	Agribusiness	Stage 2	TBD	TBD	Proposal to invest in existing tannery that processes local animal skins to "wet Blue" stage and then exports to Greece and Italy. Company wants to expand and extend processing capacity to next stage. As environmental issues are critical, SEAF requested an assessment before proceeding further. The report has been received and is being evaluated to see if it meets and/or conforms to IFC standards.
Pharmaceutical Packaging/distribution	December 04	Pharmaceutical processing and distribution	Stage 2	\$300,000	\$600,000	Proposed joint venture with local and Chinese investors to acquire an existing pharmaceutical facility that would be restructured to concentrate on the importation of generic compounds that would be processed, packaged and distributed throughout

						Uzbekistan.
Shoe Factory	July 04	Athletic shoe production	Stage 2	\$500,000	\$1,000,000	Proposed joint venture with local and Chinese investors to establish a shoe manufacturing facility.
Medical Cotton	December 04	Processing of Medical Cotton	Stage 2	TBD	TBD	Proposal to invest in an existing start-up facility located in Karakalpakstan. Foreign owner has died and estate is looking to sell all and/or part of its majority holding.
Commercial Property Development	November 04	Commercial Real Estate	Stage 2	TBD	TBD	Proposal to join with local investors in developing commercial real estate properties that would be pre-leased and/or sold.
Commercial Bank	August 04	Commercial Banking	Stage 4	\$1,000,000	\$10,000,000	Proposed investment in a local commercial bank. Two privately-owned banks are interested in CASEF's participation and due diligence has been done on both. After extended assessment SEAF has decided to go forward with the bank that is also a candidate for an EBRD investment, in which case CASEF would participate on the same terms and conditions.
<u>Kazakhstan</u>						
Commercial Leasing Company	April 04	Financial Services	Stage 4	\$800,000	\$2,400,000	Proposed joint venture with commercial bank and the ICD to establish a new commercial leasing company. Due diligence is well advanced and the investment memo is ready to be submitted to CASEF's IRC pending final agreements with the other investors.
Decorative Stone	June 04	Building Material	Stage 4	\$800,000	\$2,500,000	Proposal to join with a local investor in developing a new company that would produce decorative stone products for the construction industry. Due diligence is underway as is search for most appropriate technical/strategic partner.
Swiss Tech Center	January 04	Commercial Real Estate	Stage 3	\$700,000	\$1,500,000	Joint venture with locally based Swiss entrepreneur to purchase and refit a commercial building in Almaty that would be largely pre-leased to Swiss companies.
Welding Center & Argon Distribution	October 04	Industrial Welding services and distribution of industrial gases	Stage 2	\$500,000	\$1,000,000	Joint venture with Swiss and Finnish partners in establishing a welding business in western Kazakhstan. Company would provide service and training as well as selling industrial gases.
Premix cement	October 04	Construction materials	Stage 2	\$500,000	\$1,000,000	Joint venture with local entrepreneurs in preparing and selling premixed cement to oil and gas sector businesses in Aktau and Atyrau.

Warehouse/storage Facilities	October 04	Commercial real estate	Stage 2	\$500,000	\$500,000	Construction and/or purchase of warehouse/storage facilities for companies in western Kazakhstan.
Hotel Facility	October 04	Hospitality	Stage 2	\$500,000	\$1,000,000	Joint venture with a local entrepreneur in building a small hotel on very well situated land in Atyrau.
Fuel Distribution	October 04	Wholesale & retail Distribution	Stage 2	\$300,000	TBD	Joint venture with local entrepreneur interested in building private storage facilities and retail stations in western Kazakhstan.
<u>Kyrgyzstan</u>						
Micro finance institution	July 04	Financial Services	Stage 2	\$1,000,000	\$3,000,000	Market assessment completed to determine future prospects for conversion of Kyrgyzstan's three largest micro finance institutions into private commercial entities. Market assessment completed and sponsors met. Serious interest exists on behalf of all target MFIs. Commercial banks in Kazakhstan and international investors have also expressed serious interest. Uses of financing including additional internal infrastructure support, increased capitalization to expand loan portfolios, and technical training. Excellent exit potential.
Cold storage / Agro consolidation facilities	July 04	Merchandising / Agribusiness	Stage 2	\$200,000	\$400,000	Needs assessment completed and potential partners identified in southern Kyrgyzstan to create scale operation of cold storage for local agriculture producers. Vast market includes fruit/vegetable-processing companies in China, Kyrgyzstan, Kazakhstan, Russia.
Fertilizer mixing plants	July 04	Agribusiness	Stage 2	\$200,000	\$400,000	Market assessment completed and partner identified to create small fertilizer blending facility. Serious deficiency for quality fertilizer exists in Southern Kyrgyzstan as well as northern Tajikistan.
Decorative stone extraction	July 04	Construction Materials	Stage 2	\$300,000	\$500,000	Regional stone cutting company has rights to limestone & travertine deposit; seeking additional financial and strategic partners for quarrying activities; demand for product is confirmed, quality of quarry yet to be determined. Possibility of linking with Asian Stone proposal in Uzbekistan.

Central Asia Small Enterprise Fund (CASEF)

Summary of Approved Investments as of January 24th, 2005

Name		Date Approved	Approved Investment			Current Outstanding	Description
			Equity	Debt	Total Approved		
Kazakhstan							
	KSS	July, 2004	\$600,000	\$200,000	\$800,000		Commercial catering company concentrating on oil and gas related businesses in Western Kazakhstan
	Siaband	July, 2004	\$568,000	\$242,000	\$810,000	\$568,000	Fuel depot and distribution company
Kyrgyzstan							
	Caindy LPG	March, 2004	\$500,000	\$200,000	\$700,000	\$500,000	Storage and distribution of LPG
Tajikistan							
	EBUS Cotton Gin	May, 2004	\$310,000	\$400,000	\$710,000		Cotton gin
Uzbekistan							
	Aqua Tudakul	September, 2003	\$490,000	\$310,000	\$800,000	\$232,290	Fish hatchery/incubator with

							grow -out facilities and commercial fishing/processing.
	Business Leasing	December, 2003	\$588,000		\$588,000	\$588,000	Commercial leasing
	Semurg Estates	September, 2003	\$260,000	\$640,000	\$900,000	\$800,000	Hotel ownership company
Total			\$3,316,000	\$1,992,000	\$5,308,000	\$2,688,290	